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PROBLEMS INVOLVED IN THE DEVELOPMENT OF SWASTA
DEVELOPMENT BANK

- INDONESIA -

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FOREWORD

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PROBLEMS INVOLVED IN THE ESTABLISHMENT OF SWASTA DEVELOPMENT BANK

- Indonesia -

[Following is the translation of an article entitled "Persewaan Sekitar Pendirian Bank Pembangunan Swasta" (English version above) in Industri Madaiah Puluhan (Industry Monthly Magazine) Vol 5, No 5-6, May-June, 1960, Djakarta, p. 40-42]

Opinions of the MII [Confederation of Indonesian Industries] presented at an informal meeting with the government at the cabinet of the Prime Minister, 19th May, 1960.

In the name of the MII, we wish especially to express our appreciation and deep thanks for the opportunity and honor given us in being allowed to deliver our opinions concerning the longed-for establishment of a National Swasta Development Bank (BPSw). It is of course so much more appropriate that we express our appreciation right at this juncture. This is in recognition of the fact that the government, in its endeavor to mobilize and unify in the development of the country in general the "funds and forces" in existence in the hands of national swasta enterprisers, has genuinely demonstrated its earnestness of purpose by making available this opportunity which we are now taking for establishing an exchange of thoughts. In connection with the effort to seek a way out of the financial and economic complexities which have lately developed, various memoranda have been despatched by the MII to -- among others -- the BKS PNM [presumably Bekas Kepala Staf, Pengusaha Nasional Militer -- Former Chief of Staff -- National Military Enterprisers], His Honor the Minister of Development, and today also to His Honor the Prime Minister, all of which besides laying forth the evidence and presenting the problems, have also laid down the basic steps which must be followed towards the settlement of the complications which are faced. For clarity's sake, after we have set forth our opinions concerning the foundation of this BPWs, we beg to present a plan of initial action, which is what we mentioned a moment ago.

As we infer from the 1960 Budget, it is expected by the government that there will be a capital investment of 20 thousand million rupiah, consisting of 15 thousand million on the part of the

nation and five thousand million on the part of the Swastas. Of course, there arise from our circle some questions, among others how these expenditures will be funded; there are indeed those who pose questions about what may be the real nature of plans amounting to so much, where these structures will be located, and how these developments will be organized administratively. Such questions are of course timely, for the DEPERNAS [presumably Dewan Perencanaan Nasional -- National Planning Bureau] is not yet ready for its duties, whereas each and everything concerning the entire development plan has already been "referred" to the DEPERNAS.

In an atmosphere such as mentioned above, criss-crossed by various question-marks, there has suddenly been heard the desire of the government to establish a General Development Bank [Bank Pembangunan Semesta -- BPS] which will function particularly to finance development projects which are the property and the duties of the nation. The capital is to be obtained from the direct yield of the "rectification" of 1959, and 55% of it also from the profits of firms which are national corporations. This, then, was followed with the existence of governmental plans to extend defined facilities for the establishment of a BPSW, to have the particular function of facilitating financial endeavors for development plans within the purview of swasta organizations. The capital is not to be the government's, but must be gotten together from the interests of the swastas concerned and affected. The hearing of this report certainly gave a new breath and working spirit to the Swasta bodies, which until that time had been continually apprehensive regarding the developments which lay before them. Nonetheless, with the existence of the desire to establish at BPSW, there sprang up immediately various new problems, particularly in the field of Swasta bankers themselves. (This matter had of course already been studied, as it should properly have been, by the PERBAMA [Perhimpunan Bank -- Bank Nasional Indonesia -- Ass'n. of Indonesian National Banks]. In the circles of national Swasta enterprises, there also sprang up questions. Our hope is that perhaps these questions can be resolved by the government on this occasion.

As industrialists, we recognize that among us there is of course felt the lack of capital. This lack is felt all the more when we require foreign exchange to finance operational requirements, extensions of capacity, replacement of machinery, and even more yet the obtaining of new investment capital. But above all that, we feel an insecurity concerning our future. Where will lie the status of national Swasta capital; what will be the status of enterprise, of such matters as the purchase of raw materials and auxiliary materials, the growth of factories, the wealth of companies and individuals, the distribution of production yields, the price and quality of production yields, etc.? Uncertainties such as those presented above, among others, continue to complicate the "availability of capital", because generally the holders of funds are more on guard than those who have already invested capital in any factory. Will there truly be appropriate and effective judicial guarantees for capital, forces, and autonomy of national Swasta

enterprises when they are engaging in developmental enterprises which are parallel with the growth in popular demands, both those planned by the government and those which arise because of spontaneous efforts on the part of the members of our society themselves?

We hold that whenever we take a stubborn attitude in refusing to repeat the errors of strategy and/or technical accomplishment which have given rise to damages to society in general in both "tangible" and "intangible" forms, then this stubbornness may be taken as a symbol which guarantees the safety of operation and enterprise in future times for each and every one of our citizens, particularly for those who possess what is termed "funds and forces". And with the existence of a climate which is thus safe and guaranteed, then whatever economic developmental plans will be sped forth, both by national firms and by Swasta firms, will certainly be able to grow with a fertile result, which will be nothing other than increased production and increased national income for us all. This, after all, is what really has become the basic goal of our entire development plan, and in the process of improvement of that standard of living, we must in consequence facilitate efforts which point in the direction of the widest possible social justice. In that atmosphere, we trust that the BPSs will be able to proceed smoothly, not only joining in with the flowering of our economy and society alone, but able to become pathfinders for all progress in the fields mentioned.

Returning to the problem of establishment of a BPSw mentioned, we must at the very first recognize that that which has really become the motif of our aspirations now is the need for establishment of a BPSw besides and in partnership with the BPSs. Why is this -- is it because the banks already existing are currently regarded as unable to function in the same way as the banks referred to? Of course it may be recognized that at this moment, the Swasta banks and indeed the majority of governmental banks themselves are willing to operate only in the function of commercial banks, with a turnover of money which does not require a long term. But this practice which we have mentioned, that of banks joining in our economic budding, of course refers to ventures which banks operating as conventional technical banks could also be responsible for. If we examine them closely, the credits which have been extended by banks up to this moment have for the greatest part been used for such purposes as:

- 1.1 consumer credit
- 1.2 trade, import/export/distribution
- 1.3 transportation and production

All of these are short-term measures.

Their measures which have been long-range are credits for intangible purposes, and the majority of these have been directed towards cronies of the same group or party. It is obvious that material credits to be vested in productive fields and of fairly long-term nature have been relatively very small, both qualitatively and quantitatively. Such are the conditions which have obtained until the present time.

To continue, it is first necessary that we examine the status of the atmosphere for industry at the present time, and what may be its atmosphere in the future. From our experience as the leadership of the MII organization, we are inclined to make it of record that the condition of industry in Indonesia is somewhat gloomy at the present. Our output was, on the average, at the beginning of this year in the neighborhood of 30% of equipped capacity. This regression is caused by, among other factors, such external determinants as:

2.1 The blow struck against capital by the "rationalization" of August of last year, which was then followed by the "tight credit" policy of the banks and the devaluation of the rupiah, which gave rise to an increase in purchase price of goods amounting to around 8% (landed cost).

2.2 The deficiency in calmness of operation in industry, because of the large number of changes in the regulations and their capricious, vacillatory, and mutually contradictory natures. For example, with respect to the method of requesting foreign exchange certificates, upon the division of the Ministry of Industry into two ministries, there resulted a total lack of co-ordination between central offices and between the central and regional offices. Likewise for storage, distribution, monetary arrangements, taxes, etc.

2.3 The deficit in the allocation of foreign exchange for basic and auxiliary materials, together with foot-dragging on the part of governmental administrations charged with establishing quotas.

2.4 Alterations in the distribution structure for products of domestic industrial operations.

2.5 Difficulties in the fields of transport and communication.

2.6 A governmental strategy which is too much compressed into the fields of monetary and security matters and bilateral agreements with foreign countries, so that the problems of production have slipped out of focus for the government.

Matters of this sort give rise to effects within industry, such, for example, as businesses becoming insolvent, and there results further what almost seems a general withdrawal from the industrial field. With respect to the world outside industry, this occurrence also brings effects such as, among others, inflation, depression, decreased real income, and a general unrest in the field of trade. All this forces the government to make up for its expenditures through a course of creating new money, so that eventually

it may be concluded that such conditions represent conditions which are not fertile for efforts at cultivation of new capital in productive fields of endeavor, both by the government and even more by swasta.

On the other hand, it is ripe for the mobilization of capital for non-productive goals, to such an extent that something destructive occurs in the escape of capital from the country, bribery, corruption, waste, etc.

This condition is one which must be terminated with firmness and earnestness along with hard work, so that developmental efforts may be expected to progress continually along with the apparatuses for their effectuation. With such new conditions, it will certainly be true that the need for the establishment of banks, which has become the principal item of today's agenda, will be felt the more.

In this connection, we wish to repeat that which we stated previously to the government concerning efforts at first shoving aside obstacles such as we have experienced during these last years, and the encouragement of a climate healthy for endeavor and work, through such methods as:

3.1 Guaranteeing freedom of work and endeavor, and that every governmental regulation in the field of economy or monetary matters and development be directed towards the augmentation of production and the elevation of productivity.

3.2 Speeding and increasing the issuance of foreign exchange for those who require it for the purpose of production, through a course of increasing the budgeting of exchange for industry out of a comparatively quite large reserve of exchange already in the hands of the government (at present, as of 11 May 1960, the reserve was \$345 million).

3.3 Speeding the distribution of raw materials which already are in the warehouses of importers, particularly those which are the property of national corporations and governmental institutes.

3.4 Speeding the transportation of domestic raw materials for production, the majority of which take the form of supplementary raw materials.

3.5 Establishment of a "cheap credit policy" for the purpose of productive and constructive ventures, particularly those whose turnover time encompasses a not-too-long period.

3.6 Establishment of "factory laws" and "laws for the protection of industrial products" with the motto "Buy Indonesian products" (In America it is the "Buy American Act").

3.7 For everyone to return to his job and work intensively within the framework of his duty, and to reduce the extent of his

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mixing his hand in things aside from his duty, and things which are clearly inefficient or even damaging.

3.8 To avoid monopolistic and monopsonistic practices in the financial-economic field and the field of development, no matter what their form or rationalization.

With the condition of improvement which may be expected as mentioned above, in our opinion the BPSw proposed will be able to endure. When the seed is of good stock and is planted in a fertile place, the fruit will not be disappointing. In this relation, according to our view, the BPSw should have its establishment regulated according to the following conditions, among others:

4.1 The BPSw will basically not abolish Swasta banks in existence, particularly banks which are already operating in the field of endeavor of the proposed BPSw. Towards this end, the BPSw will make use of national Swasta banks as partners and those partners will constitute units which will directly serve industries and other objectives.

4.2 This BPSw must be given a "tax holiday" for the first five years, to include establishment taxes, etc.

4.3 In order to stimulate developmental ventures in desirable new industries, then there must be extended to them also such fiscal liberties as "tax holidays" for three to five years, in accordance with the form and nature of the enterprises.

4.4 The BPSw will as a basis extend only long-term credits, but in the period of its inception, it should also be allowed to extend short and middle term credits. It is these which have been needed very much in the past and are still needed by existing industries, for the needs of raw material and auxiliary material purchases, distribution of the yields of production, and increases and renewals of factory machinery. The extending of middle-term credit and short-term credit is also designed to assure the liquidity of the BPSw itself.

4.5 The BPSw will of course only be able to live a useful life if the economic, monetary, and developmental climate is itself healthy. For that reason, the establishment of the BPSw cannot be spanned in a "fallow land" milieu, and the fertility of this fallow land depends upon good will on the part of the government, in guaranteeing freedom of motion for "funds and forces" in existence on the part of the Swastas.

4.6 Whenever general conditions have become healthy, the question of capitalization of the BPSw itself will no longer be difficult.

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4.7 The management of the BPSw must be free from the influence of economic organizations, general or particular, and also from political parties. Its personnel must be selected objectively and realistically.

4.8 The establishment of the BPSw must be regulated legally, by laws in which is guaranteed safety respecting Swasta capital mobilized within the BPSw.

4.9 Financial relations between the world of Swasta corporations in Indonesia and foreign countries are to be channeled, mediated, and operated through the BPSw.

4.10 Foreign businesses which exist or will exist in Indonesia must become subscribers to the BPSw, as deposit-holders.

4.11 The central and regional governments must be able to extend facilities in the form of services toward the east of operation of BPSw endeavors.

4.12 Even though direct financial aid from the government or the Bank of Indonesia cannot be expected, nonetheless the Bank of Indonesia as a bankers' bank must still continue as the required guarantor of liquidity.

These are our opinions; may they, one and all, become the bases for necessary reflection, and we continue prepared to join with the government in working towards rendering healthy the economic, monetary, and developmental climate as depicted above.